Message Text

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ORIGIN DOE-15

INFO OCT-01 EUR-12 ISO-00 EB-08 SOE-02 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 H-01 INR-10 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09 SP-02
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DRAFTED BY DOE/IA: DHICKEY:GLF
APPROVED BY EUR/RPE: P L LAASE
DOE/IA: JTREAT
DOE/P&E: GDEPRES
DOE/IA: SJACKSO
DOE/ERA: SBUSH (SUBSTANCE)
DOE/OGC:RGOODWIN
EURRPE: C K STOCKER
EB/FSE: G ROSEN
DOE/IA: H BERGOLD
------------------038626 020220Z /64
R 012014Z AUG 78
FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
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E.O. 11652: N/A; TAGS: ENRG, EEC

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SUBJECT: ENERGY: EC PROPOSAL REGARDING PETROLEUM PRODUCT

EXPORTS TO THE U.S.
REF: BRUSSELS 14228, WILLIAMS/BERGOLD LETTER OF 6/29/78

EC--PASS FOLLOWING LETTER TO MR. L. WILLIAMS, DIRECTOR
GENERAL FOR ENERGY, COMMISSION OF THE EUROPEAN

COMMUNITIES FROM MR. HARRY E. BERGOLD, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF ENERGY.

1. DEAR LEN: THANK YOU FOR YOUR RECENT LETTER IN WHICH YOU OUTLINED PROBLEMS OF THE EC REFINING INDUSTRY, COMMENTED ON PERCEIVED CONSTRAINTS IN EXPANDING OIL PRODUCT EXPORTS TO THE UNITED STATES AND SUGGESTED A MUTUALITY OF INTERESTS IN INITIATING DISCUSSION ON THIS TOPIC.

2. WE SHARE YOUR CONCERN ABOUT THE EFFICIENT UTILIZATION OF EXISTING REFINING CAPACITY.

3. OUR POLICY HAS TRADITIONALLY BEEN TO FAVOR DOMESTIC REFINING OF CRUDE OIL AND EXPANSION OF NEW REFINERY CAPACITY IN THE UNITED STATES. POLICY INCENTIVES ARE BEING DEVELOPEDTO ENCOURAGE THIS PROCESS. IN SPITE OF

SUCH INCENTIVES, RECENT EXPERIENCE HAS SHOWN A CONTINUING U.S. MARKET FOR OIL PRODUCT IMPORTS, PARTICULARLY RESIDUAL OIL. THE U.S. IS NEUTRAL REGARDING THE SOURCE OF SUCH PRODUCTS AND PURCHASE DECISIONS ARE MADE ON A COMMERCIAL BASIS. THE PREFERENCE FOR WESTERN HEMISPHERE OIL PRODUCTS YOU REFERRED TO WAS PHASED OUT SEVERAL YEARS AGO.

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4. THE PRINCIPAL ADVANTAGES TO U.S. REFINERS VIS-A-VIS EC REFINERS ARE (A) LOWER COST FEEDSTOCKS RESULTING FROM U.S. CRUDE OIL PRICE CONTROLS, (B) PRODUCT IMPORT FEES WHICH ARE GREATER THAN SIMILAR FEES FOR CRUDE OIL, AND (C) TRANSPORTATION ADVANTAGES, THOUGH THESE ARE PARTLY OFFSET BY THE ABILITY OF EC PORTS TO ACCOMMODATE LARGER TANKERS AT LOWER TRANSPORT RATES. WHILE U.S. REFINERS PAY LESS FOR CRUDE OIL THAN THEIR EC COUNTERPARTS, THIS DIFFERENCE HAS SUBSTANTIALLY NARROWED OVER THE LAST TWO YEARS AND NOW AMOUNTS TO LESS THAN 2 DOLLARS PER BARREL. AS YOU CORRECTLY NOTE, IT IS THE ADMINISTRATION'S POLICY, REINFORCED BY OUR SUMMIT DECLARATION, TO RAISE DOMESTIC OIL PRICES TO WORLD LEVELS BY 1980. THE U.S. ALSO PROVIDES ENTITLEMENT BENEFITS FOR IMPORTS OF RESIDUAL FUEL OIL OF APPROXIMATELY 30 PERCENT OF THE PRICE DIFFERENCE BETWEEN DOMESTIC AND IMPORTED RESIDUAL OIL TO THE IMPORTER. PROPOSALS ARE NOW BEING CONSIDERED TO INCREASE THIS ENTITLEMENT BENEFIT TO 100 PERCENT FOR RESIDUAL OIL IMPORTED ON THE EAST COAST.
THE DIFFERENCE BETWEEN OUR FEES ON IMPORTED CRUDE (21 CENTS A BARREL) AND PRODUCTS (63 CENTS A BARREL) PROVIDES SOME PROTECTION FOR U.S. REFINERS. THE LEVEL

AND EFFECTIVENESS OF SUCH FEES ARE UNDER REVIEW.
5. REGIONAL TRANSPORTATION COST DIFFERENCES ALSO AFFECT THE ABILITY OF THE EC TO EXPAND OIL PRODUCT EXPORTS TO THE U.S. MARKET. GIVEN THE GEOGRAPHIC PROXIMITY OF REFINERIES IN THE CARIBBEAN AND EASTERN CANADA, COUPLED WITH AN UNUTILIZED REFINERY CAPACITY OF SEVERAL MILLION BARRELS/DAY, WE WOULD EXPECT SUCH SOURCES WOULD MEET INCREMENTAL U.S. PRODUCT NEEDS FOR SOME TIME.

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6. WE ARE CURRENTLY IN THE PROCESS OF REVIEWING OUR REFINERY POLICY. AS YOU CAN APPRECIATE, IT IS A COMPLEX ISSUE WHICH REQUIRES THOROUGH ANALYSIS, AND NO FORMAL DEADLINE HAS BEEN SET FOR ITS COMPLETION. NEVERTHELESS,

I WOULD BE WILLING TO DISCUSS THIS AND OTHER RELATED TOPICS WITH YOU AT A MUTUALLY CONVENIENT TIME. I WILL BE IN EUROPE IN MID-SEPTEMBER AND, SCHEDULES PERMITTING, COULD ARRANGE FOR A PRELIMINARY EXCHANGE OF VIEWS. SINCERELY, HARRY E. BERGOLD, JR. VANCE

NNN

Message Attributes

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